



Control Number: 51871



Item Number: 10

Addendum StartPage: 0

PUC PROJECT NO. 51871

REVIEW OF THE ERCOT SCARCITY
PRICING MECHANISM

§
§
§

PUBLIC UTILITY COMMISSION
OF TEXAS

2021 MAR 19 PM 2:22

CALPINE CORPORATION INITIAL COMMENTS
REGARDING THE STAFF QUESTIONS

Calpine Corporation ("Calpine") appreciates the opportunity to provide comments regarding potential changes to the ERCOT scarcity pricing mechanism, including the timing of any such changes. Calpine is headquartered in Houston and has made tremendous investment in Texas. We serve Texans through our Retail Electric Providers ("REPs"), have twelve natural gas power plant facilities located in Texas as part of our Power Generation Company ("PGC"), and supply more than 9,100 MW of generation to Texas' competitive wholesale market. Our standard is to be a positive contributor and our core values include supporting the communities in which our employees and customers live and work. We commit to work with policy makers, the Commission and its Staff, and other interested stakeholders on the review of market reforms.

Calpine supports a critical and deliberate review of the events of the week of February 15, 2021, and plans to be an active part in the evaluation of market reforms that may be needed in the future. As we embark on that evaluation, Calpine recommends the following principles for consideration in the context of the instant project:

- Short-term reforms should be narrowly focused on the low system-wide offer cap ("LCAP").
- The Commission should provide regulatory certainty for expected pricing outcomes consistent with the current rule by retaining the \$2,000 LCAP for the summer of 2021.
- Any LCAP revisions should ensure that generators dispatched by ERCOT are not harmed if the LCAP is implemented when fuel prices are extraordinary.

Calpine understands the purpose of this project is to specifically review the LCAP outlined in 16 Tex. Admin. Code §25.505(g)(6)(A) and its administration by the Electric Reliability Council of Texas,

Inc. (“ERCOT”). We support this review and seek to ensure that the ERCOT market scarcity pricing mechanisms provide the appropriate incentives for load and generation to support investments in Texas. Correct market signals provide the best guide for the desired level of investment to ensure long term reliability outcomes necessary to support Texas. Calpine appreciates the opportunity to offer comments on the Commission Staff questions below.

1. Should the Commission amend its rules to adjust the LCAP?

Reforms to the LCAP to address instances when fuel prices are extraordinary are warranted based on recent experience from the February 2021 winter storm. As noted by the Commission’s February 16, 2021 Order,¹ under the current LCAP structure, exceptionally high natural gas prices could result in LCAP prices that “exceed the high system-wide offer cap (HCAP) of \$9,000 per MWh and \$9,000 per MW per hour,” contrary to the intent of the rule. Given the expedited nature of this project and reasonable expectation that there may be other amendments to the ERCOT market design, Calpine supports a focused review of the effectiveness of § 25.505(g)(6)(A) at this time, in preparation for summer 2021. However, if other scarcity pricing mechanism features such as the high system-wide offer cap, the peaker net margin threshold, and the value of lost load will be reviewed in this project, then the project should examine all reforms holistically with a broader set of questions, and more time should be allotted for full consideration of all market design changes prior to this upcoming winter. This will minimize the risk of adverse unintended consequences as to other aspects of the market rules.

2. If the Commission amends its rules to adjust the LCAP, what specific adjustments should it make?

The primary shortcoming of the design of the existing LCAP mechanism outlined in § 25.505(g)(6)(A) is that once the peaker net margin amount has been exceeded, extraordinary natural gas prices, like those observed during the February 2021 winter storm, could result in an LCAP that would exceed the HCAP of

¹ http://interchange.puc.texas.gov/Documents/51812_31_1113285.PDF

\$9,000 per MWh. Calpine respectfully suggests a rule amendment below that would ensure that the LCAP cannot exceed the HCAP by making the LCAP the lesser of either: the greater of \$2,000 or 50 times the natural gas price index value determined by ERCOT, expressed in dollars per MWh and dollars per MW per hour, or the HCAP. Calpine proposes the following changes:

(g)

(6) System-Wide Offer Caps.

(A) The low system-wide offer cap (LCAP) will be set on a daily basis at the lesser ~~greater~~ of:

(i) The greater of \$2,000 per MWh and \$2,000 per MW per hour or 50 times the natural gas price index value determined by ERCOT, expressed in dollars per MWh and dollars per MW per hour; or

(ii) The value determined in (g)(6)(B) below. ~~50 times the natural gas price index value determined by ERCOT, expressed in dollars per MWh and dollars per MW per hour.~~

This proposed amendment is consistent with Commission action during the winter storm event and would obviate the need for the Commission to issue a similar emergency order to address market anomalies resulting from extraordinary natural gas prices in the future. Additionally, if the Commission chooses to amend the heat rate imbedded in the LCAP formula, there should be a mechanism to ensure that generators dispatched by ERCOT are not economically harmed if the LCAP is implemented when fuel prices are extraordinary. The Commission should provide clear direction that ensures a fair make-whole process exists if generation is needed to maintain reliability and costs rise above the cap.

3. If the Commission amends its rules to adjust the LCAP, when should these adjustments take effect?

On March 3, 2021, the Commission adopted an Order allowing the scarcity pricing mechanism to transition to the LCAP which, notwithstanding exceptional natural gas fuel prices, is currently capped at \$2,000/MWh. As such, we expect that the current \$2,000/MWh LCAP will remain in place for the remainder of Summer 2021. If the Commission reviews other portions of the scarcity pricing mechanism, Calpine believes the Commission should undertake a review of whether the value of the LCAP will send the appropriate scarcity pricing signal to promote investment in resources. Any appropriate changes

identified in this broader review, however, should be implemented *after* summer and prior to winter to minimize market disturbance. For summer 2021, we recommend only the narrowly-focused revision described above, to ensure that generators are not harmed by the LCAP in times of extraordinary natural gas prices.

We appreciate this opportunity to present our views on this very important matter and will remain engaged as this Project develops. We will make available representatives to discuss these positions if helpful to the Commission.

Respectfully submitted,

By: /s/Diana Woodman Hammett

Diana Woodman Hammett
Texas Bar No. 21942300
Vice President & Managing Counsel, Legal Department
CALPINE CORPORATION
Direct: (713) 820-4030
Email: diana.woodmanhammett@calpine.com

Bryan Sams
Director Government and Regulatory Affairs
CALPINE CORPORATION
Direct: (512) 632-4870
Email: bryan.sams@calpine.com